Full Cost Decision Memorandum: Service Under-used Capacity (SA-04)

Issue:

How is under-utilized service capacity planned and managed?

Source / reference:

LaRC Full Cost Implementation Team (2003-2004)
LaRC Office of the Chief Financial Officer (OCFO)

Background:

The costs associated with service operations must be fully covered in any given year. Historical evidence suggests many services are not fully subscribed at the beginning of the fiscal year. In addition, further analysis demonstrates many service requirements that were not previously identified during the planning process are identified throughout the execution year. Thus, in certain circumstances, historical information is used to help estimate the benefiting programs that will utilize given services. Specifically, fabrication and wind tunnels have a significant amount of historical information that is used to help determine likely customers. In addition, labor, utilities, maintenance, information technology and other services cannot be de-scoped without sufficient lead-time. Therefore, in the short-term, service managers should determine method(s) to spread the costs of underutilized capacity to their customers.

Options:

1. Charge underutilized capacity to Center G&A
2. Adjust service pool rates to recover the costs of underutilized services

Decision:

Option 2 – Service managers must evaluate anticipated usage of the respective activity to adjust capacity, and in turn, associated costs. This evaluation must be accomplished prior to the negotiation of services during the budget process. In that regard, Center service managers should incorporate a more business-like approach to recovering costs from customers. If actual usage is consistently at a lower level than full capacity, costs should be based on the lower/anticipated capacity. Essentially, the lower capacity becomes the new full capacity. For example, savings may be achieved by reducing the scope of contracts to run tests. Also, running the facilities less should reduce the utilities and maintenance costs. Finally, if actual usage of a service is consistently low over time, senior management, with recommendation by the service manager, must decide if that service is too cost ineffective (cost exceeds benefit) to continue.

Approved by LaRC CFO (Ken Winter) 10/17/03